

REPORT TO THE LEGISLATURE
ON
UNIVERSAL TELEPHONE SERVICE TO RESIDENTIAL
CUSTOMERS

In Accordance with California Public Utilities Code Section 873

Submitted to the California State Legislature

CALIFORNIA PUBLIC UTILITIES COMMISSION

Respectfully submitted

July 16, 2004

I. INTRODUCTION

A. PURPOSE OF REPORT

The California Public Utilities Commission (CPUC) has prepared this report for the California Legislature regarding universal telephone service to residential customers in response to Public Utilities Code Section 873. This report, which was prepared by the CPUC's Telecommunication Division (TD) staff, assesses the degree of achievement of universal service, including telephone penetration rates by income, ethnicity, and geography pursuant to the requirements in this statute.

B. UNIVERSAL TELEPHONE SERVICE: OVERVIEW

As discussed in Public Utilities Code Section 871.5, universal telephone service is a concept that high quality basic telephone service be affordable and ubiquitously available to all members of society. It is a longstanding cornerstone of the California Legislature and the California Public Utilities Commission telecommunications policy. In response to this policy commitment and in compliance with this statute, the CPUC in 1985 created the Universal Lifeline Telephone Service Program (ULTS).

The ULTS Program provides discounted basic residential telephone services to low-income households and operates a competitively neutral marketing program. For eligibility purposes, low-income households are defined as the members of the customer's household collectively earning no more than the following amount of annual income:

Household Size	ULTS Annual Income Limits (6/1/03 through 5/31/04)	ULTS Annual Income Limits (6/1/04 through 5/31/05)
1-2 members	\$19,600	\$20,100
3 members	\$23,200	\$23,700
4 members	\$27,800	\$28,400
Each additional member	\$4,600	\$4,700

Discounted residential telephone services available to ULTS customers include but are not limited to the following:

Service	Description	Rate
Flat-Rate Local Telephone Service	Unlimited local calls and same free access to directory assistance calls as provided to non-ULTS flat-rate residential customers.	Monthly recurring: The lower of \$5.34 or 1/2 of utility's residential flat-rate local telephone service.
Subscriber Line Charge	A monthly charge to phone customers created by the FCC & paid to the local phone company	SBC's charge is \$4.48/mo. Verizon's charge is \$6.00/mo. ULTS customers' line charges are 100% subsidized by federal or state programs. ¹
Measured Local Telephone Service	60 local calls per month and \$0.08 per call after 60, and same free access to directory assistance calls as provided to non-ULTS measured-rate residential customers.	Monthly recurring: The lower of \$2.85 or 1/2 of utility's residential measured local telephone service.
Service Connection and Service Conversion	For initiation of telephone service, or change of class/type/grade of service.	Non-recurring: The lower of \$10 or 1/2 of utility's connection/conversion charge for residential telephone service.

¹ SBC and Verizon and other incumbent local exchange carriers' fees are paid through a federal program. Competitive local exchange carriers' fees are paid through the California ULTS program.

The ULTS Program is funded by an all-end-user surcharge assessed on consumers' bills for intrastate telecommunications services. For the calendar year 2003, the collected surcharge revenues totaled approximately \$77.4 million. The number of residential customers participating in the ULTS program remained fairly constant at about 3.3 million. Thirty-one carriers provide ULTS service to California customers.

II. TELEPHONE SUBSCRIBERSHIP IN CALIFORNIA

A. CALIFORNIA HAS RELATIVELY STRONG TELEPHONE PENETRATION RATES

The most widely used measure of telephone subscribership is the percentage of households with telephone service, which provides a measure of telephone usage or penetration. The Federal Communications Commission (FCC), using data from the Current Population Survey (CPS) conducted by the Census Bureau, has maintained quarterly data on subscribership rates since 1983. This FCC data is useful as it can be used to compare penetration rates over time, judge the effectiveness of our Lifeline Program, and determine how California is progressing relative to other states.

As of November 2003², the telephone subscribership penetration rate for all households in the United States was 94.7%. By state, the penetration rates ranged from a low of 89.7% in Arkansas to a high of 98.0% in Maine. Among all states, California ranked thirteenth with a penetration rate of 96.5% as of November 2003. In comparison with the prior year, the 96.5% rate is a slight change from California's penetration rate of 96.6% in November of 2001. While this is not statistically significant, TD will monitor new data as it becomes available to determine if there is a downward trend developing. Table 1 on the following page lists the top states with the highest penetration rates.

² November 2003 is the most recent data available from the FCC.

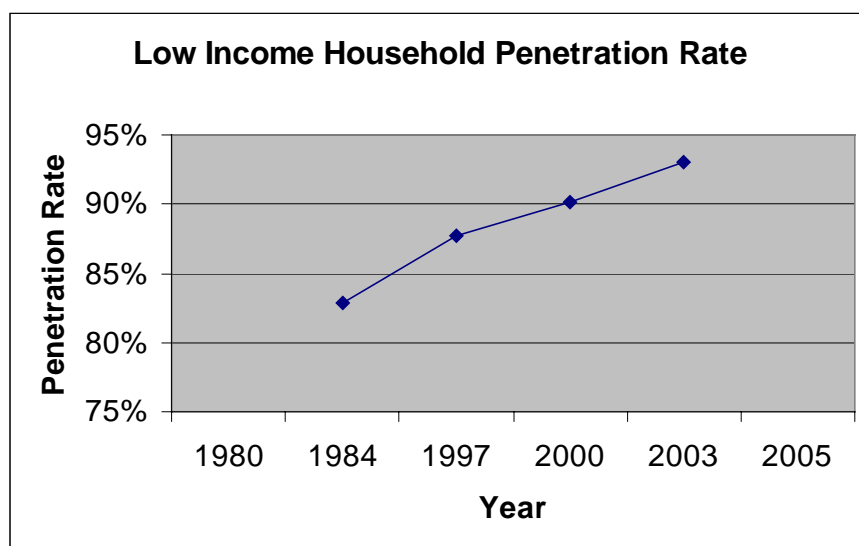
Table 1.

Top Fifteen States with Highest Penetration Rates

STATE	PENETRATION RATE FOR ALL HOUSEHOLDS
1. Maine	98.0%
2. Massachusetts	97.8%
3. Connecticut	97.6%
4. Maryland	97.4%
New Hampshire	97.4%
6. Alaska	97.1%
Rhode Island	97.1%
8. Vermont	97.0%
9. Iowa	96.8%
Pennsylvania	96.8%
11. Delaware	96.6%
Utah	96.6%
13. California	96.5%
Hawaii	96.5%
15. New Jersey	96.2%

B. PENETRATION RATES FOR LOW-INCOME HOUSEHOLDS HIGHER SINCE LIFELINE ASSISTANCE PROGRAM INTRODUCED

California's penetration rate for low-income households is also faring well. In March 1984, prior to the implementation of lifeline assistance, California's penetration rate for *Low-Income Households* was 82.9%. In March 1997, the penetration rate for low-income households had increased to 87.7%, and by March 2000 stood at 90.1%. California's penetration rate as of March 2003 has now reached 93.1%.³ While there is still a disparity between low-income households and all households, the gap is lessening. By comparison, the 2003 national average for low-income households stood at 89.2%, so again California with a 93.1% subscribership rate ranked higher.



III. TELEPHONE PENETRATION DATA BY INCOME, ETHNICITY, AND GEOGRAPHY

A. DOMINANT ILECs HAVE OVERALL PENETRATION RATES OF 96.7%

As of December 2002, twenty-two incumbent local exchange carriers (ILECs)⁴

³ This percentage represents the most recent individual household data from the CPS conducted by the Census Bureau in March 2003.

⁴ Incumbent Local Exchange Carrier. The traditional wireline telephone service providers within defined geographical areas. Prior to 1996, ILECs operated as monopolies having the exclusive right and

were providing 94% of the access lines⁵ to California wireline residential customers. Competitive local exchange carriers were holding the remaining 6% of the residential wireline market. The two dominant ILECs, SBC California and Verizon California, held about 92%⁶ of all residential access lines.

In February 2004, the CPUC's TD staff sent data requests to all twenty-two ILECs requesting specific information regarding telephone penetration rates for their service territories, including penetration rates by income, ethnicity, and geography. Nineteen ILECs responded to the data request. SBC and Verizon California were able to provide significant data because the CPUC has required SBC and Verizon to track such data since 1994 (per Decision 94-09-065). The remaining seventeen carriers reported that they do not track customer information by income, ethnicity, and geography. Similarly, the four competitive local exchange carriers who were sent data requests reported they do not track customer information by income, ethnicity, or geography.

The overall penetration rate in SBC's California service territory is 96.7% for 2003. For Verizon California, the overall penetration rate is 96.8%.⁷ These penetration rates are slightly above the state average. The two major residential service providers in the state, SBC and Verizon, have established 98% as their goal for penetration rates throughout their service territories.

Tables 2, 3, and 4 below show the carriers' estimated⁸ penetration rates assessed by Household Income Level, Ethnicity/Race, and Geographical Area.

responsibility for providing local and local toll telephone service within LATAs. ILECs include regional Bell operating companies such as Pacific Bell/SBC and non-Bell affiliated companies such as Roseville Telephone Company, both in California.

⁵ An access line is a telephone line reaching from the telephone company central office to a customer's premises, which in this case is a residential dwelling unit.

⁶ SBC held a 73% share, followed by Verizon with a 19% share.

⁷ SBC's and Verizon's penetration rates are up from 96.4% in 2001.

⁸ Percentages shown are from the 2003 (March, July, and November) Current Population Survey (CPS) data conducted by the Census Bureau.

B. HOUSEHOLD INCOME LEVELS INFLUENCE PENETRATION RATES

Table 2.

2003 Penetration Rates of SBC and Verizon by Household Income Level

HOUSEHOLD INCOME LEVEL	SBC PENETRATION RATE	VERIZON PENETRATION RATE
\$ 0 - \$9,999	92.2 %	92.4%
\$10,000 - \$19,999	95.5%	96.7%
\$20,000 - \$29,999	97.4%	94.3%
\$30,000 - \$39,999	98.6%	99.6%
\$40,000 – over	99.0%	98.3%

In reviewing Table 2, it is clear that for both SBC and Verizon that household income levels directly affect telephone subscriber penetration rates. The very low-income households, those earning less than \$10,000 annually, are below the state average in telephone subscribership. SBC's reported penetration rate for households under \$10,000 is 92.2%; Verizon's reported penetration rate is 92.4%. These penetration rates are both still below the statewide average of 96.5%. For households with income in the \$10,000-\$19,999 range, SBC reports a penetration rate of 95.5%; Verizon reports a penetration rate of 96.7%. For both ILECs, households with incomes over \$30,000 exceed the statewide averages. A comparison of the penetration rates shows a 6% to 7% difference between the lowest and highest income levels for both SBC California and Verizon.

C. SOME VARIANCES NOTED IN PENETRATION RATES BY ETHNICITY/RACE

Table 3.

2003 Penetration Rates of SBC and Verizon by Ethnicity/Race

ETHNICITY/RACE	SBC PENETRATION RATE	VERIZON PENETRATION RATE
African-American	95.4%	95.5%
Asian-American	97.1%	94.9%
Hispanic	95.9%	95.9%
White / Other	97.9%	97.5%

In reviewing Table 3, SBC's reported penetration rate for African-Americans is 95.4%, and Verizon's is 95.5%, which are both below the statewide average of 96.5%. For Hispanics, both SBC and Verizon were slightly below the statewide average with rates of 95.9%. SBC's reported penetration rate for Asian Americans was 97.1%, slightly above the statewide average. Verizon's reported penetration rate for Asian Americans was 94.9%, which is below the statewide average and the lowest reported figure of any ethnic group. For both SBC and Verizon, the rates for White/Other are above statewide averages. For both carriers, the penetration rates differ by about 2 ½ percentage points among the four ethnicity/race categories evaluated.

Comparing California penetration rates with the national data reported by the FCC yields some interesting comparisons. Nationally, households headed by Whites had a penetration rate of 95.5%, while those headed by Blacks had a rate of 89.7% and those headed by Hispanics had a rate of 90.5%. These trends echo the California findings, although again California exhibits somewhat higher rates than the national averages. The FCC does not track demographic information about Asian Americans.

D. SOME VARIANCES NOTED IN PENETRATION RATES BY GEOGRAPHIC AREA

Table 4.

2003 Penetration Rates of SBC and Verizon by Geographical Area

GEOGRAPHICAL AREA	SBC PENETRATION RATE	VERIZON PENETRATION RATE
Northern California ⁹	96.0%	95.7%
Southern Central Valley, Central Coast, and Rural Areas ^{10 11}	97.4%	98.6%
Greater Los Angeles Metro Area ¹²	97.0%	N/A
Greater San Francisco Bay Area ^{13 14}	96.8%	95.6%
Greater San Diego Area ¹⁵	99.0%	N/A
Southern California ¹⁶	N/A	96.4%

Table 4 shows slight variances in penetration rates by geographic areas, but does not present any glaring anomalies in terms of geographic disparity among different regions throughout the state. All geographic area shows a penetration rate above 95%. It is noteworthy that in SBC's territory, the Greater San Diego Area has a significantly higher penetration rate than the statewide average. In

⁹For SBC, Northern California is defined as Butte, El Dorado, Placer, Sacramento, San Joaquin, Stanislaus, Sutter, Yolo, and Yuba Counties.

¹⁰ For SBC, this category represents Fresno, Kern, Monterey, and Tulare Counties, plus a selected sample from all other rural counties.

¹¹ For Verizon, the Central Valley includes primarily Bakersfield and small communities along the Eastern Sierras.

¹² For SBC, this category encompasses Los Angeles, Orange, Riverside, San Bernardino, and Ventura Counties.

¹³ In the Bay Area Verizon serves some customers in the Novato and Los Gatos areas.

¹⁴ For SBC, this includes San Francisco, Marin, San Mateo, Santa Clara, Santa Cruz, Alameda, Contra Costa, Napa, Sonoma, and Solano Counties.

¹⁵ For SBC, this represents San Diego County.

¹⁶ For Verizon, their service territory is primarily located in Southern California in coastal communities and the inland valleys. This includes several communities in the county of Los Angeles such as the San Gabriel Valley, and in counties that surround Los Angeles such as Ventura County, Orange and Kern County.

Verizon's territory, the Southern Central Valley has a significantly higher penetration rate than the statewide average.

IV. CONCLUSION

California has made significant strides in achieving its universal telephone service goals since implementation of its Lifeline Program in 1985. We currently have a statewide penetration rate of 96.5%, which compares favorably to the national average of 94.7%. Prior to the implementation of lifeline assistance, California's penetration rate for *low-income households* stood at 82.9%. By March 2000 it had reached 90.1%, as compared to the national average of 87%. California's penetration rate as of March 2003 has now reached 93.1%, as compared to the national average of 89.2%. While the increases are impressive, more remains to be done. The very low-income households in the state are still below the statewide averages. In addition, both African-American and Hispanic households telephone penetration rates are below statewide averages. Staff intends to follow up on this area in the next report.

REFERENCES USED IN REPORT PREPARATION

References used to compile this information include the following sources:

- *Trends in Telephone Service*, Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission. August 2001.
- *Telephone Subscribership in the United States* (Data Through November 2003), by Alexander Belinfante, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission. May 2004.
- *Telephone Penetration by Income By State* (Data Through March 2003), by Alexander Belinfante, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission. February 2004.
- *Telephone Subscribership in the United States* (Data Through November 2001), by Alexander Belinfante, Industry Analysis and Technology Division,

Wireline Competition Bureau, Federal Communications Commission. May 2002.

- *Affordability of Telephone Service Volumes 1 and 2*, conducted for Verizon (GTE) and Pacific Bell by Field Research Corporation, 2000-2001.
- *The Status of Telecommunications Competition in California* (Second Report for the Year 2002). California Public Utilities Commission. February 28, 2003.
- *The Status of Telecommunications Competition in California* (Third Report for the Year 2003). California Public Utilities Commission. October 31, 2003.
- Responses to “Data Request Regarding Universal Service in Your Service Territory” sent to 22 Telephone Carriers in California by the CPUC Telecommunications Division on February 19, 2004.
- Responses to “Data Request Regarding Universal Service in Your Service Territory” sent to 4 Competitive Local Exchange Carriers in California by the CPUC Telecommunications Division on May 12, 2004.

Each of the above references addresses some aspect of telephone penetration information related to income, ethnicity, or geography. When viewed individually, they represent a patchwork of information but when viewed together, they form a telling picture of telephone subscribership in California and the nation.